

# Within-firm vertical pay disparity and social responsibility: evidence for Spanish listed firms

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## MOTIVATION (MOTIVACIÓN CIENTÍFICA)

The rise in socioeconomic inequality is a critical issue, and firms, through compensation or CSR/ESG policies can help to normalize, reinforce or reduce these inequalities. In this context:

→ Vertical Pay Disparity: **VPD** (director-to-employee pay ratio) has emerged as a critical indicator of inequality in organizations. VPD has attracted attention from society, lawmakers and scholars.

Within this framework we ask if *social responsibility* (the “S” in ESG) reflects a genuine commitment to corporate equality (translates into smaller pay gaps). We also wonder if transparency, by increasing stakeholders’ monitoring capacity, strengthen the negative relation between *social responsibility* and VPD.

## RESEARCH HYPOTHESES (HIPÓTESIS)

- H1: Firms with higher social responsibility scores will have lower director-to-employee pay disparity
- H2: The relationship between social responsibility and pay disparity is stronger for firms with higher transparency.

As an additional analysis we investigate if a reduction in VPD, is a consequence of higher employee pay or a constraint on director pay.

## MÉTODOS (METHODS)

**Sample:** 77 listed Spanish firms (2018–2022), 660 directors; unbalanced panel (247 firm-years; 2,410 director-years). Combined database from CNMV (IGC; IRC), BELab and SABI.

### Models:

$$(1) \ln(VPD)_{it} = \beta_0 + \beta_1 Social\ Responsibility_{it} + \sum \gamma Controls_{it} + Year\ FE + Industry\ FE + \varepsilon_{it}$$

*Dependent Variable* → **VPD:** director total compensation / average employee wage (ln).

*Independent Variable* → **Social Responsibility Index (0–100):** policies (diversity/equality, unions, work–life balance, human rights) + outcomes (absenteeism, layoffs, training, disability inclusion).

$$(2) \ln(VPD)_{it} = \beta_0 + \beta_1 Social\ Responsibility_{it} + \beta_2 Transparent\ Firm_{it} + \beta_3 (Transparent\ Firm_{it} * Social\ Responsibility_{it}) + \sum \gamma Controls_{it} + Year\ FE + Industry\ FE + \varepsilon_{it}$$

## MAIN RESULTS (RESULTADOS PRINCIPALES)

Table 4. Model Specification

Variables	Dependent Var: Ln(VPD)	
	Full Sample	
	(1) Model 1	(2) Model 2
<b>Social Responsibility</b>	-0.003** (0.001)	-0.003** (0.001)
<b>Transparent (1 if &gt;p50)</b>	–	1.818*** (0.527)
<b>Social Responsibility X Transparent</b>	–	-0.023*** (0.007)
<b>Controls</b>	Yes	Yes
<b>Constant</b>	-6.463*** (1.460)	-6.902*** (1.456)
<b>Year FE</b>	Yes	Yes
<b>Industry FE</b>	Yes	Yes
Model summary		
<b>Observations</b>	2410	2410
<b>Number of master_id</b>	771	771
<b>R2</b>	0.470	0.471

Notes: Robust standard errors in parentheses.  
\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Higher *Socially responsible* scores are associated with lower VPD (coef. ~ -0.003; p<0.05), especially for more transparent firms.

The reduction in Vertical Pay Disparity is explained by a constraint on director remuneration.

You can read the entire work by scanning the QR code or clicking this [link](#).



## REFERENCES (BIBLIOGRAFÍA)

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